

Message Text

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ACTION EUR-08

INFO OCT-01 SS-14 ISO-00 NSC-05 NSCE-00 INR-05 CIAE-00
PM-03 DODE-00 SP-02 L-01 EB-03 OMB-01 TRSE-00 EA-06
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R 101729Z FEB 77

FM AMEMBASSY BONN

TO SECSTATE WASHDC 5525

INFO USMISSION EC BRUSSELS

USMISSION OECD PARIS

USMISSION GENEVA

C O N F I D E N T I A L SECTION 01 OF 02 BONN 02574

LIMDIS

E.O. 11652: GDS

TAGS: EGEN, GW

SUBJ: SENIOR CHANCELLERY OFFICIAL'S VIEWS ON FRG
ECONOMIC STIMULATION PROBLEM.

1. DURING CONVERSATION WITH ECON/COMM. MINISTER FEB. 8, DIETER HISS, IN CHARGE OF ECONOMIC MATTERS IN THE CHANCELLERY, REPORTED THAT WORK WAS GOING FORWARD ON THE PLANNED GERMAN 10-12 BILLION DM INVESTMENT PROGRAM. HE SAID THE PROCESS WAS NOT EASY, BUT THE CHANCELLOR WOULD BE DISCUSSING THE MATTER THIS WEEK DURING HIS REGULAR MEETING WITH THE LAENDER MINISTER-PRESIDENTS.
2. HISS SAID THE PROGRAM BREAKS DOWN INTO THREE PARTS. ONE PART FINANCED BY THE FEDERATION; A SECOND PART FINANCED BY THE FEDERATION AND THE LAENDER, AND A THIRD PART FINANCED BY THE LAENDER ALONE.

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3. THE FIRST PART OF THE PROGRAM (ABOUT A THIRD) TO BE FINANCED BY THE FEDERATION WOULD BE THE EASIEST AND COULD ALSO BE IMPLEMENTED THE FASTEST. THE TYPE OF PROJECTS, WHICH COULD BE FINANCED BY THE FEDERATION, WERE, HOWEVER, LIMITED TO AREAS SUCH AS TRANSPORTATION FACILITIES AND THE HIGHWAY SYSTEM.

4. THE SECOND CATEGORY WOULD BE JOINT PROJECTS OF THE FEDERATION AND THE LAENDER. THE WORKING OUT OF THESE PROGRAMS WOULD DEVELOP INTO A KIND OF POKER GAME WITH THE FEDERATION PUTTING ITS CHIPS ON THE TABLE TO SEE WHAT THE LAENDER WOULD DO TO MATCH THEM.

5. THE THIRD CATEGORY, WHICH WOULD BE FINANCED THE LAENDER AND THE COMMUNITY ALONE, WOULD BE THE MOST DIFFICULT. HOWEVER, THE UNEMPLOYMENT IN THE VARIOUS LAENDER WAS CERTAINLY INCENTIVE FOR THEM TO BE CO-OPERATIVE IN THE EXPANSION PROGRAM. THE MATTER WAS FURTHER COMPLICATED BY THE NEED TO RENEGOTIATE THE AGREEMENT WITH THE LAENDER ON TAX SHARING (BONN 1935 AND BONN 2151). HISS SAID THAT EVEN THOUGH, IN HIS VIEW, THE PRESENT PROGRAM WAS NOT SUFFICIENT, THERE WOULD BE PRESSURES IN THE DOWNWARD DIRECTION RATHER THAN THE UPWARD DIRECTION, AND HE WOULD BE BUSY IN THE COMING WEEKS IN RESISTING THESE DOWNWARD PRESSURES.

6. HISS CONFIRMED THAT AMERICAN "ADVICE" WAS NOT UNWELCOME FOR THE FRG BOTH IN DEALING WITH THE FDP AND THE LAENDER GOVERNMENTS. HE HAD PRESUMED, HOWEVER, THAT SUCH COMMENTS, AS WE MIGHT MAKE, WOULD BE DIRECTED AT THE EXISTENCE IN THE FRG OF UNUTILIZED CAPACITY AND THE ABILITY OF THE FRG TO PERMIT FURTHER EXPANSION WITHOUT THE DANGER OF INFLATION.

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C O N F I D E N T I A L SECTION 02 OF 02 BONN 02574

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7. HISS WAS SLIGHTLY CONCERNED, BY INCREASED EMPHASIS ON THE PART OF JOURNALISTS, WHO SEE EVIL IN EVERYTHING, IN BUNDLING THE FRG TOGETHER WITH JAPAN, AND IN EMPHASIZING THE NEED TO REMOVE FRG CURRENT ACCOUNT SURPLUSES. HE REMARKED THAT, AS WE WELL KNEW, PUBLIC MEDIA REACTION HAD INDEED NOT TAKEN ENTIRELY KINDLY TO U.S. ADVICE URGING FOR FURTHER EXPANSION MEASURES.

8. HISS POINTED OUT THAT OVER THE SHORT RUN, WITH RELATIVELY CLEAN FLOATING EXCHANGE RATES AND AN OPEN TRADING SYSTEM, THERE WAS NOT MUCH THAT COULD BE DONE TO BRING ABOUT AN EARLY REVERSAL OF THE FRG CURRENT ACCOUNT SITUATION. HE SAID THAT THERE WAS EVIDENCE OF SOME SLIGHT PROGRESS IN 1976 WHEN IMPORTS INDEED GREW MORE RAPIDLY THAN EXPORTS. FURTHERMORE, THE FRG WOULD NOT FIND UNWELCOME SOME STRENGTHENING OF THE DEUTSCHMARK VIS-A-VIS THE OTHER CURRENCIES WHICH MIGHT RESTRAIN EXPORTS AND ENCOURAGE IMPORTS.
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9. THE DANGER HE SAW IN EMPHASIS ON THE CURRENT ACCOUNT SURPLUS RATHER THAN UNUTILIZED FRG CAPACITY WAS THE PSYCHOLOGICAL IMPACT IT HAD IN GERMANY ITSELF; GERMAN INDUSTRY AND THE GENERAL PUBLIC TENDED TO PRESUME THAT OUR OBJECTIVE WAS TO BRING ABOUT ADJUSTMENTS THROUGH AT LEAST SOME INFLATION IN THE FRG. THIS IN TURN LED BUSINESS TO FEAR A FUTURE "CREDIT CRUNCH", IF SUCH INFLATION INDEED OCCURS AND BUNDESBANK ADOPTED RESTRICTIVE MONETARY POLICY. HISS WAS OF THE OPINION THAT THIS PSYCHOLOGICAL FACTOR COULD DISCOURAGE INVESTMENT IN THE FRG, WHICH IN ITSELF WOULD BE CONTRARY TO OUR OVERALL OBJECTIVE. HISS RAISED THIS MATTER ON HIS OWN INITIATIVE IN A VERY DIPLOMATIC FASHION AND CLEARLY DID NOT WANT TO MAKE A MAJOR ISSUE OUT OF THE QUESTION.
STOESSEL

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